HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Winnipeg CMA

Canada Mortgage and Housing Corporation

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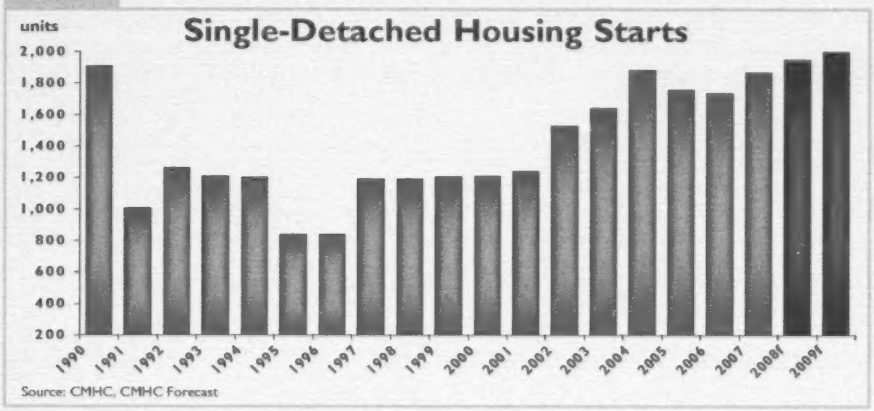
NEW HOME MARKET

Total starts down 15 per cent on lower multi-family construction

This year will see total housing starts in the Winnipeg Census Metropolitan Area reach 2,875 units, a decline of 15 per cent from 2007. The reduction in total starts will be due entirely to a substantial change in multi-family construction that countered the modest gains in the single-detached sector.

The outlook for the Winnipeg new home market is mixed. While there are several economic and housing market headwinds facing the housing industry at the close of 2008 and into 2009, they are in opposition to a number of positive influences such as record migration and 2008's impressive rate of full-time job growth. The challenges will cause some sectors of the housing market to back off the growth rates that have become the norm in recent years. However, there will be pock-

Figure 1



Source: CMHC, CMHC Forecast

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ets of strength in 2009 that will overcome the uncertainty facing the economy as a whole.

In 2009, single-family construction will remain strong early in the year as builders have commitments from buyers that will carry them through the first six months of 2009. The second half of the year will see modest declines and higher carrying costs and a modestly slowing economy take their toll on buyers. Multi-family starts will moderate as builders re-evaluated the viability of projects in the face of rising inventories and concern over increased credit market uncertainty.

Single-detached construction poised for another strong year

This year, builders across the Capital region will surpass both the 1,737 single-detached homes started in 2006 and the 1,870 started in 2007, by pouring foundations for 1,925 homes., . Moving into 2009, the CMA will see 1,850 single-detached homes started, a modest four per cent decrease from 2008.

Demand for new single-detached units in Winnipeg remains strong and builders are confident that volumes can be maintained through the early part of 2009. Pent-up demand for single-detached housing, and delays in bringing on new lots in high-demand areas, has forced builders to push starts into 2009, despite the fact that contracts have been signed in 2008. In addition, persistent labour shortages in many of the construction trades has been a limiting factor for builders who must also compete with the renovation sector for tradespeople. While there remains an adequate supply of lots in each of the four quadrants of the city, delays in smoothly bringing on new lots in the desirable Waverly West are responsible for some of this temporal shift. It is also one of causes of the geographical shift in single starts that will continue into 2009.

While volumes in 2009 will be similar to 2008, the location of the starts will shift somewhat. Buyers have increasingly begun to focus their attention outside of Winnipeg City to some of the surrounding Rural Municipalities (RM's). In the third quarter of 2008, more than 30 per cent of total single-detached starts occurred in one or more of the ten RM's that ring the city. This trend will continue over the forecast period. There are several factors responsible for the shift. While lifestyle and financial considerations are at play for some households, the delay in delivering serviced lots in the more desirable areas of the city is causing some buyers to look outside the city limits.

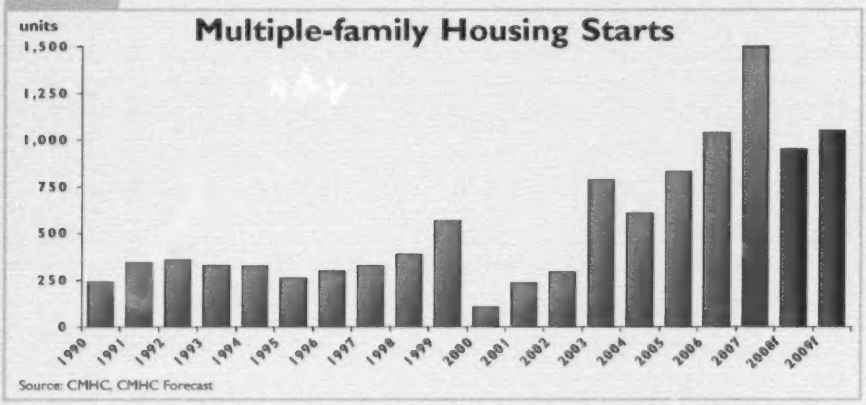
The price of a new home in Winnipeg has risen significantly over the last few years. 2009 will see some moderation in that growth rate. The moderation, however, will not match that of the resale market as new lots that will be available for purchase in 2009 will be predominantly in the higher price ranges. The New House Price Index (NHPI) will rise 6.7 per cent in 2008 and a further 6.5 per cent in 2009. Both years will remain above the long-term average for the index. Average prices will reach $340,000 in 2008 and $365,000 in 2009. While price growth in most areas of the housing market will move toward long-term average levels, the NHPI will be boosted by the fact that many of the lots that will be made available for building in the coming years will be more expensive than in the past, even those located in the same neighbourhood.

Multi-family starts reflect shifting conditions and need for apartment units

Winnipeg will finish 2008 with a substantial reduction in multi-family starts from the 1,501 recorded in 2007. The year will see 950 foundations poured, a 37 per cent reduction from 2007 before contracting further to 850 units in 2009. Despite the lower level of activity, the two-year average would be just below the 1,040 units that saw construction begin in 2006,.

Discussions with builders have revealed concerns over credit market uncertainty and building inventories that will result in a more cautious approach in the coming year. This will extend well into 2009, and possibly beyond, depending on how these two issues resolve themselves over that period. Multi-family starts will not fall precipitously, however, as they will be supported by continued demand for an expanded rental market universe. At 1.1 per cent in 2008, Winnipeg's vacancy rate will be among the lowest in history. Meanwhile, record levels of migration will keep the household formation rate high, necessitating construction to house them.

Figure 2



In addition, while much of the condominium construction over the last two years has been priced at $250,000 and above, a shift to more modestly priced units will be met favourably by the market. First-time buyers, facing average resale prices in excess of $200,000, are increasingly facing affordability issues. Given Winnipeg's historically affordable resale market, condominium builders have not been able to build units to compete with that market as they do in other cities. The price escalation in the Winnipeg CMA now makes it possible for multi-family developers to fill a niche of price points below average resale prices.

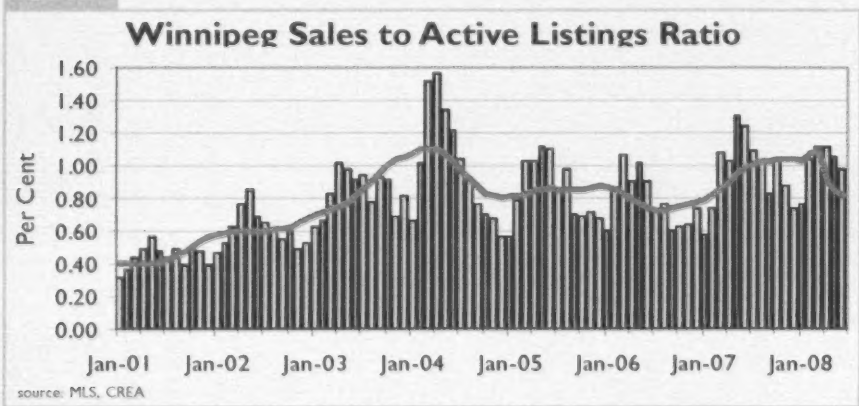
RESALE MARKET

Price gains will moderate as move to balanced market continues

After six consecutive years of double digit price growth, the resale market in Winnipeg will move to more balanced conditions in 2009. Price growth will moderate from the pace set in 2008, but will remain buoyed by demographic trends and the relative affordability of Winnipeg's resale market. Increased listings will also be responsible for the moderation in the growth rate of average MLS® prices, while allowing sales to remain strong. Average MLS® price will reach $200,000 in 2008, an increase of 14.8%. A further four per cent gain in 2009 will push the average resale price to $208,000.

A key factor in the remarkable price growth over the course of the last five years has been the limited number of listings available. This situation reached a head in 2008 with record low levels of homes on the market during much of the first quarter. The second half of the year, however, saw listings move toward ten-year average levels, a sign that sellers will no longer hold nearly so much power in their negotiations with buyers. In large part, this is a function of the increased completions brought about by the elevated levels of new construction over the last two years. As these new units are absorbed, people are listing their homes in order to make the move.

Figure 3



The sales-to-active listings ratio (SALR), which is a measure of the balance between supply and demand, has come off its high of 2007. While still above 69 per cent in August 2008, there are signs that listings are moving slowly upward. As such, the average home sells in a little over a month. As 2009 wears on, the SALR will continue to fall, improving the demand-supply balance over the course of the year. While this important measure will show signs of softening, it will not move in the

dramatic fashion that has been seen in some other Canadian centres.

This year will finish with 12,000 MLS® residential sales in the Winnipeg CMA, down 2.6 per cent from 2007. Higher listings and firm demand will facilitate a modest improvement in sales next year, reaching 12,100 units.

Despite the run-up in the value of their homes, Winnipeggers have been reluctant to put them on the market as they have in other markets in Western Canada. Some of this reluctance comes from seniors who would be happy to move into an adult lifestyle condominium in their area if one were available. In addition, Winnipegers have the highest propensities to renovate of the citizens of any of Canada's major centres, according to a CMHC study on renovation intentions, suggesting that people are satisfied to modify their existing homes to suit their needs rather than looking to the resale market.

Figure 4

Source: CMHC, CMHC Forecast

RENTAL MARKET

Universe will expand in 2008, vacancies remain tight

While Winnipeg will see a continued scarcity of rental units relative to the demand for such accommodations, the strain will be less than in previous years. As such, the overall apartment vacancy rate will exit 2008 at 1.1 per cent and finish 2009 at 1.3 per cent. Such vacancy rates will represent a loosening of a rental market that has seen rates drop as low as one per cent over the last year. Despite the easing, prospective tenants will require advance planning for a move to, or within, the rental market.

Winnipeg's status as a destination for international immigrants to the province will provide most of the impetus for low vacancy rates in the CMA. With 3,800 new Winnipegers expected in 2009, demand for rental accommodations will remain strong. Even in the event of a widespread economic downtown, Winnipeg will remain an attractive destination for immigrants to Canada. With a labour market that is more favourable than the national average and an economy growing faster than the rest of the country, Winnipeg's position as an economic leader relative to the rest of Canada will remain intact.

Despite Winnipeg's multi-decade low vacancy rates, new rental construction had been virtually non-existent for many years leading up to 2005. In fact, Winnipeg has had a declining universe of rental units every year since a lone increase in 2003, losing 1,796 units, or three per cent from October 2003 to April 2007. The annual reduction in the rental market universe in Winnipeg has occurred in 13 of the last 14 years, further rationale for strong multi-family construction.

With the change to the rent control legislation in 2005 allowing new rental construction a twenty-year exemption from the guidelines, there was a flurry of rental construction in 2006 and 2007. That activity, however, did not carry into 2008. In the first three-quarters of the year, 229 rental units were started, compared to an average of more than 700 annually in the two previous years. While the more than 1,500 units started over the last three years will be a welcome addition to the rental market universe, the population growth in the city will rapidly take up those units upon completion.

With a number of sizeable rental projects approaching completion and the return of a significant number to units removed for renovations, a long anticipated increase in the rental stock will allow the vacancy rate to inch upward in 2008 and 2009 after having reached a historic low of one

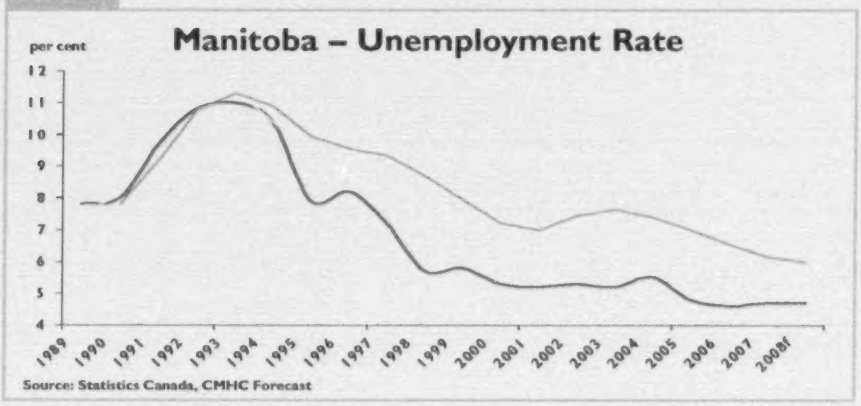
per cent in the Spring of 2008. Further completions in 2010 will support continued easing of the vacancy rate.

As a result of supply and demand considerations, average rent for a two-bedroom apartment in the Winnipeg CMA will reach $770 in 2008 and $800 in 2009. While the provincially mandated increases are limited to 2.5 per cent in 2009, average rent increases will exceed that number for several reasons. Typically, the units that are removed from the rental pool are usually those with the lowest rents. At the same time, units that are added are the most recently constructed or renovated and tend to command higher rents, leading to an upward bias over time even if the number of units in the universe remains constant. Additionally, there are several exceptions to the guidelines which allow for greater than mandated rent increase under certain circumstances.

ECONOMIC OVERVIEW

While headwinds are growing for both the Canadian and Winnipeg economies, the City is poised to weather the storm relatively better than the rest of the country. Slowing sales in the manufacturing and retail sectors are balanced by a jobs picture that includes an unemployment rate that is well below the national average and further expansion in the export sector.

Figure 5



Source: Statistics Canada, CMHC Forecast

The single most important single factor that has driven the housing market in Winnipeg has been the remarkable turnaround in migration to both the province and the city, beginning shortly after 2000. Aided by the highly successful Provincial Nominee Program, Winnipeg will see more than 3,750 new citizens in 2008. That represents about 1,560 new households that will require accommodations of some type. Though the vast majority of the newcomers are international immigrants, the flow of skilled young people to BC and Alberta has slowed to a trickle. While those immigrants who arrived shortly after the turn of the century were more likely than the average Canadian to be renters, they will now have spent more than five years in the country and will be starting to move into home ownership. This is a trend that shows no signs of weakening, even in the face of a slowing economy.

The employment picture in the CMA remains one of the most attractive in the country. The unemployment rate in Winnipeg is hovering just above four per cent, while the participation rate is near record highs. In addition, every job, and more, that was created in 2008 was a full-time position. While job creation is expected to weaken in 2009, particularly in the manufacturing sector, this will be partly offset by persistent strength in construction employment. The share of new employment devoted to full time work will also weaken as companies look to better manage labour costs in uncertain economic times.

A number of large scale capital projects are set to begin over the next two years even as those that been the drivers of non-residential construction over the last two reach completion. There are several capital projects on the horizon that contribute to non-residential construction now that work on Manitoba Hydro's

$900 million office tower winds down. The floodway expansion continues and plans are in place for the Canadian Human Rights museum and a $125 million mass transit expansion. Planning also continues on a new football stadium for the city, at a cost in excess of $100 million.

The most significant risk to the local economy is in the form of uncertainty regarding the impacts of credit conditions in Canada, and an economic slowdown worldwide, particularly in the United States. Currently, these impacts are unclear, as there is significant volatility in markets across North America. These concerns notwithstanding, Winnipeg is well positioned to weather this storm compared to other markets across the country.

MORTGAGE RATES

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

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Forecast Summary Winnipeg CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	11,415	11,594	12,319	12,000	-2.6	12,100	0.8
MLS® New Listings	14,002	14,786	14,490	15,250	5.2	16,000	4.9
MLS® Average Price ($)	137,063	154,607	174,203	200,000	14.8	208,000	4.0
New Home Market							
Starts:							
Single-Detached	1,756	1,737	1,870	1,925	2.9	1,850	-3.9
Multiples	830	1,040	1,501	950	-36.7	850	-10.5
Starts - Total	2,586	2,777	3,371	2,875	-14.7	2,700	-6.1
Average Price ($):							
Single-Detached	252,252	268,104	306,080	325,000	6.2	347,500	6.9
New Housing Price Index (% chg.)	8.5	9.4	11.8	7.5	-	7.0	-
Rental Market							
October Vacancy Rate (%)	1.7	1.3	1.5	1.1	-	1.3	-
Two-bedroom Average Rent (October) ($)	683	709	740	770	-	800	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	374,700	382,200	390,500	394,500	1.1	394,500	0.0
Employment Growth (%)	-0.4	2.0	2.2	1.9	-	1.8	-
Unemployment rate (%)	4.8	4.6	4.7	4.3	-	4.6	-
Net Migration [1]	1,376	3,557	0	6,000	68.7	6,500	8.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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